

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman;
Nanci E. Langley; and
Robert G. Taub

Modification of Analytical Principles
in Periodic Reporting
(Proposals Nine through Fifteen)

Docket No. RM2012-1

ORDER CONCERNING ANALYTICAL PRINCIPLES
FOR PERIODIC REPORTING
(PROPOSALS NINE THROUGH FIFTEEN)

(Issued January 20, 2012)

I. INTRODUCTION

In Order No. 203, the Commission adopted periodic reporting rules pursuant to 39 U.S.C. 3652.¹ Those rules require the Postal Service to obtain advance approval, in a notice and comment proceeding under 5 U.S.C. 553, whenever it seeks to change the analytical principles that it applies in preparing its periodic reports to the Commission required by section 3652.

On November 1, 2011, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to

¹ Docket No. RM2008-4, Order No. 203, Notice of Final Rule Prescribing Form and Content of Periodic Reports, April 16, 2009.

consider seven proposals to change the analytical methods approved for use in periodic reporting.² The proposals are labeled Proposals Nine through Fifteen.

Proposal Nine changes the current method for distributing the domestic transportation costs of inbound letter post to countries and the country group reporting categories presented in the International Cost and Revenue Analysis (ICRA) report.

Proposal Ten changes the attribution of costs for Parcel Select by assigning the costs of undeliverable-as-addressed (UAA) Parcel Select parcels to the Parcel Select product.

Proposal Eleven modifies the method for calculating delivery cost savings of Express Mail when Express Mail is part of a Negotiated Service Agreement (NSA).

Proposal Twelve modifies the mail processing cost model applicable to Standard Mail presort letters to disaggregate the mail processing costs of Standard nonautomation machinable Mixed Automated Area Distribution Center (MAADC) and Automated Area Distribution Center (AADC) presort letters.

Proposal Thirteen presents new mail processing cost models for Media Mail and Library Mail.

Proposal Fourteen updates the cost models of a number of Special Services by including costs associated with mail processing and certain retail window-related activities.

Proposal Fifteen modifies and updates cost models related to Return Receipt service to better reflect current postal operations.

The Commission approves Proposals Nine through Fifteen. Each proposal is discussed below.

² Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Nine - Fifteen), November 1, 2011 (Petition).

II. PROPOSAL NINE: CHANGE IN METHOD OF DISTRIBUTING THE DOMESTIC TRANSPORTATION COSTS OF FOREIGN ORIGIN (INBOUND) LETTER POST MAIL

A. Postal Service Proposal

The International Cost and Revenue Analysis (ICRA) report presents revenues, costs, and volumes for each of the Postal Service's outbound and inbound international mail products.³ The ICRA report also presents revenue, cost and volume data separately by country and country group. For the Inbound and Outbound Single-Piece First-Class Mail International products,⁴ such data are provided for the following countries and country group reporting categories: Canada; Target System Countries, excluding Canada; and Transition System Countries, including Mexico.⁵

As presented in the ICRA report, the current method for distributing the domestic transportation costs (Cost Segment 14) of inbound letter post is based upon the number of pieces entered from each country or country group. Under Proposal Nine, domestic transportation costs will be distributed based upon weight.

The Postal Service states that "this proposal represents an improvement" over the current method. Petition at 4. According to the Postal Service, distributing the domestic transportation costs of inbound letter post based upon weight is consistent with the distribution of such costs for U.S. origin (outbound) letter post, which has

³ See Library Reference USPS-FY10-NP2 (non-public), Excel file Reports (Booked).xls, Docket No. ACR2010, December 29, 2010.

⁴ Inbound and Outbound Single-Piece First-Class Mail International is often referred to as "letter post," the name given to international mail that is not classified as Parcel Post or Express Mail (EMS). Also known as LC/AO mail (*i.e.*, letters and cards, and all other, including flats, small packets, bags, and containers), letter post consists of mail similar to domestic First-Class Mail, Periodicals, Standard Mail, Bound Printed Matter, and Media/Library Mail, weighing up to four pounds (1.8 kilograms).

⁵ The Target system refers generally to industrialized countries participating in the Quality Linked Measurement System (QLMS) established by the Universal Postal Union (UPU). Under the QLMS, terminal dues payments are adjusted for the quality of service provided in the country of destination for inbound letter post from other countries that participate in the QLMS. The "Transition System" refers generally to developing countries that do not participate in the QLMS.

always been presented in the ICRA report by country or country group. *Id.* Moreover, distributing domestic transportation costs based upon weight recognizes the significant variation in weight per piece across countries and country groups. *Id.*

As part of its Petition, the Postal Service provides an Excel workbook file, “Proposal9.xls” (non-public), showing the impact of Proposal Nine on the distribution of FY 2010 domestic transportation costs by countries and country groups for inbound letter post.⁶ The workbook reveals that the total cost for inbound letter post is unchanged. *Id.* However, the distribution of total cost between Canada and the Target System and Transition System countries changes. The Postal Service observes that the most significant impact is a reduction in the cost of inbound letter post from Canada “because, on average, this mail weighs significantly less per piece than inbound mail from the rest of the world.” *Id.*

B. Participant Comments

Comments were filed by the Public Representative.⁷ No other parties submitted comments. The Public Representative observes it is “commonly accepted that weight is a better driver of transportation costs than are pieces.” *Id.* at 1-2. Consequently, the Public Representative recommends Commission approval of Proposal Nine because it “would provide a more accurate distribution of transportation costs.” *Id.* at 2.

C. Commission Analysis

The Commission approves the change in method described in Proposal Nine. The Commission concurs with the Postal Service (and the Public Representative) that the implementation of Proposal Nine represents an improvement over the current

⁶ In the Excel workbook “Proposal9.xls” the worksheet tabs show relevant pages from the FY 2010 ICRA report.

⁷ Comments of the Public Representative, December 5, 2011, at 1-2 (PR Comments).

method by providing a more accurate distribution of transportation costs for inbound letter post.

III. PROPOSAL TEN: PROPOSED CHANGE IN THE IN-OFFICE COST SYSTEM (IOCS) FOR UNDELIVERABLE-AS-ADDRESSED PARCEL SELECT PIECES

A. Postal Service Proposal

The Postal Service proposes to change the treatment of costs for undeliverable-as-addressed (UAA) Parcel Select pieces. The Postal Service states that for most of FY 2011, it charged Parcel Post prices for UAA Parcel Select pieces, and assigned the related In-Office Cost System (IOCS) tallies for those pieces to the Parcel Post product. Petition at 6.

The Postal Service explains that on June 24, 2011, it began charging UAA Parcel Select pieces the equivalent of the Parcel Select non-presort price plus an additional \$3.00 fee. *Id.* Consistent with this change, the Postal Service began allocating the revenue for UAA Parcel Select pieces to the Parcel Select product. *Id.* With Proposal Ten, the Postal Service proposes to assign the related UAA Parcel Select IOCS tallies to the Parcel Select product.⁸

B. Participants Comments

Comments were filed by the Public Representative. No other parties submitted comments. The Public Representative recommends that the Commission accept the proposed change in treatment of UAA Parcel Select costs because it will ensure that costs are assigned to the correct product. PR Comments at 3. The Public Representative also observes that the proposal will increase Parcel Select attributable costs and decrease Parcel Post attributable costs. *Id.* at 2.

⁸ In its response to CHIR No. 1, question 1, the Postal Service clarifies that for FY 2011, Proposal Ten will apply solely to tallies incurred after June 24, 2011. See Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 1, December 8, 2011 (Postal Service Response to CHIR No. 1).

C. Commission Analysis

The Commission approves the change in analytical principles related to UAA Parcel Select pieces. The Postal Service's proposal is reasonable. Since the revenue for UAA Parcel Select pieces are now assigned to Parcel Select, the related costs should also be assigned to Parcel Select.

IV. PROPOSAL ELEVEN: CHANGE FOR DELIVERY COST SAVINGS FOR EXPRESS MAIL NEGOTIATED SERVICE AGREEMENTS

A. Postal Service Proposal

The Postal Service proposes changes to the method for calculating the delivery cost savings for Express Mail Negotiated Service Agreements (NSAs). In Docket No. RM2011-12, Proposal Eight modified the Express Mail delivery cost savings workpapers to reflect a change in postal operations where carriers no longer attempt to obtain signatures for Express Mail pieces that contain signature waivers. In addition, Proposal Eight updated the Express Mail workpapers with new Carrier Cost Systems (CCS) data. The Postal Service states that the Commission's recent approval of changes to the workpapers related to Express Mail delivery cost savings necessitates corresponding changes to the workpapers related to Express Mail NSAs delivery cost savings.⁹

To be consistent with Proposal Eight, the Postal Service proposes three changes to the Express Mail NSA delivery savings workpapers and one change to the Express Mail NSA support file.¹⁰ With respect to the delivery savings workpapers, the Postal Service proposes to (1) modify the treatment of Express Mail NSA accountable pieces that bear a signature waiver; (2) replace the current signature waiver proxy with new CCS Express Mail data; and (3) remove the assumption that carriers seek to obtain signatures on 10 percent of pieces that have signature waivers. Petition at 7-8. With respect to the support file, the Postal Service proposes to incorporate cost savings for deviation parcels, *i.e.*, delivered parcels that are left in a secure location for the recipient. *Id.*

⁹ See Docket No. RM2011-12, Order Concerning Analytical Principles for Periodic Reporting (Proposals Four through Eight), October 21, 2011 (Order No. 920).

¹⁰ In support of each Express Mail NSA and in each Annual Compliance Report, the Postal Service provides underlying unit cost calculations. See Docket No. ACR2010, Library Reference USPS-FY10-NP27, file "SupportExpress_FY10.xls."

B. Participants Comments

Comments were filed by the Public Representative. No other parties submitted comments. The Public Representative states that the Commission should approve the first two changes described above. PR Comments at 4. With respect to the third change, the Public Representative describes the change as replacing “the assumption that ten percent of NSA Express mail would shift from delivery by Special Purpose Route Carriers to Regular City Delivery Carriers, with an assumption that twenty-five percent would be delivered by Regular City Delivery Carriers.” *Id.* In this regard, the Public Representative suggests that the Commission seek additional evidence from the Postal Service supporting its assumption that 25 percent, rather than 10 percent of NSA Express Mail will be delivered on a Regular City Route as opposed to on a Special Purpose Route. *Id.*

The Postal Service filed reply comments to the Public Representative’s comments.¹¹ Postal Service Reply to PR Comments at 2-3. In its Reply, the Postal Service states that the Public Representative’s recommendation regarding the third modification appears to stem from a misperception. *Id.* at 3. The Postal Service suggests that the Public Representative’s recommendations regarding the third modification are not appropriate and should be disregarded. *Id.*

C. Commission Analysis

The Commission approves the delivery cost methodology changes related to Express Mail NSAs. Concerning the Public Representative’s apprehension about the Postal Service’s third modification, the Postal Service is simply eliminating the assumption that 10 percent of the time, carriers attempt to obtain a signature on Express Mail NSA pieces that already contain a signature waiver. The third

¹¹ Response of the United States Postal Service to Comments of the Public Representative, December 9, 2011 (Postal Service Reply to PR Comments). The Postal Service also filed a Motion for Leave to File Response to Comments of the Public Representative, December 9, 2011. The motion is granted.

modification is reasonable. As stated in the workpapers accompanying Proposal Eleven, with the incorporation of new CCS Express Mail data related to signature waivers, the Postal Service's carrier costing methodology can better estimate the amount of Express Mail pieces that a carrier attempts to obtain a signature on that already contain a waiver.¹² As a result, an assumption of the percentage of time carriers seek to obtain a signature is not necessary.

The Commission finds that the proposed methodological changes align the Express Mail NSA models with the Express Mail models to reflect new postal operations and CCS data. In addition, the Commission appreciates the Postal Service's filing of changes to the Express Mail NSA model in advance of its 2011 Annual Compliance Report and encourages the Postal Service to continue this practice.

¹² See Excel file Express Mail Delivery Savings Update FY 2010 Revised.xls, worksheet 'Explanatory Notes' that accompanies Proposal Eleven.

V. PROPOSAL TWELVE: MODIFICATION OF THE STANDARD MAIL PRESORT LETTERS MAIL PROCESSING COST MODEL

A. Postal Service Proposal

The Postal Service proposes to disaggregate the avoided cost estimates for nonautomation machinable MAADC and AADC presort Standard Mail letters as directed in the 2010 Annual Compliance Determination. Petition at 9. The Postal Service currently offers separate discounts for nonautomation machinable MAADC and AADC presort letters, but the Standard Mail presort letters mail processing cost model do not estimate corresponding avoided costs for each discount.

Separate costs are warranted if the processing of MAADC and AADC mail differs. For this reason, the Postal Service first determined whether there are mail processing differences between the two presortation levels.

In FY 2010, the Standard Mail mail processing avoided cost model assumed both MAADC and AADC presort letters were processed in the outgoing input subsystem (ISS) operation. *Id.* After further evaluation, the Postal Service concludes that while nonautomation machinable MAADC presort letters are first processed in the *outgoing* ISS operation, nonautomation machinable AADC presort letters are first processed in the *incoming* ISS operation. *Id.* at 10.

To integrate the distinction between nonautomation machinable MAADC and AADC presort letters, the Postal Service creates a separate mail flow model for each presort level. The MAADC cost model treats *outgoing* ISS as the first operation. The AADC cost model treats *incoming* ISS operation as the first operation. *Id.*

The Postal Service also proposes removing MODS data used to calculate piggyback factors for mail processing bar code sorters (MPBCS). *Id.* at 11. The Postal Service indicates that the MPBCS machines are now retired; therefore, corresponding piggyback factors are no longer needed. *Id.*

The Postal Service measures the impact of Proposal Twelve by estimating the mail processing unit costs with and without the proposed modification. *Id.* at 12. The proposed modification results in an increase of \$0.0005 in the unit mail processing cost for non-automation machinable MAADC presort letters and a decrease of \$0.0090 in the unit mail processing cost for non-automation machinable AADC presort letters. *Id.*

B. Participant Comments

The Public Representative filed comments and reply comments.¹³ The Postal Service filed reply comments to the Public Representative comments.¹⁴ No other comments were received regarding Proposal Twelve.

The Public Representative indicates that the Postal Service's assumptions about the processing of MAADC and AADC are reasonable. PR Comments at 5. However, the Public Representative does not recommend the approval of Proposal Twelve because of possible implications associated with Proposal Seventeen in Docket No. RM2012-2.¹⁵ Proposal Seventeen proposes the consolidation of certain MODS productivities that are used as inputs into the Standard Mail letter mail processing avoided cost model. The Public Representative is concerned that if Proposal Seventeen is approved, the productivities used to disaggregate the unit mail processing cost for nonautomation machinable MAADC and AADC presort letters in the instant proposal will no longer be available. *Id.* The Public Representative reply comments reiterate his concerns that adequate productivities for Proposal Twelve would not be available if Proposal Seventeen is approved. PR Reply Comments at 2.

¹³ Reply Comments of the Public Representative, December 12, 2011 (PR Reply Comments). The Public Representative also filed a Motion for Leave to File Response to Reply Comments of the United States Postal Service, December 12, 2011. The motion is granted.

¹⁴ Response of the United States Postal Service to Reply Comments of the Public Representative, December 14, 2011 (Postal Service Response to PR Reply Comments).

¹⁵ Docket No. RM2012-2, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seventeen).

In the Postal Service's reply comments, it explains that if Proposal Seventeen is approved, distinct ISS and output subsystem (OSS) productivities will no longer be available. Postal Service Response to PR Reply Comments at 4. However, the Postal Service also explains that if Proposal Seventeen is approved, it will still be possible to estimate costs for ISS and OSS processing of nonautomation machinable letters. *Id.* at 5. The Postal Service therefore believes the Public Representative's comments should be disregarded and Proposal Twelve should be approved. *Id.*

C. Commission Analysis

The Commission agrees with the Public Representative and the Postal Service that the proposed approach to disaggregate the avoided costs for Standard Mail nonautomation machinable AADC and MAADC presort letters is reasonable, and therefore the Commission accepts Proposal Twelve.¹⁶

However, the Commission has concerns about the potential implications of Proposal Seventeen. Proposal Seventeen will have an effect on all letter mail processing avoided cost estimates, not just those in Proposal Twelve. Therefore, the Commission approves Proposal Twelve and will address the Public Representative's concerns with respect to the effects of Proposal Seventeen on Proposal Twelve in Docket No. RM2012-2.

In previous Annual Compliance Reports (ACR) and rate adjustments the avoided cost estimate for nonautomation machinable MAADC and AADC presort letters was the same; therefore, no passthrough was calculated. With the approval of Proposal Twelve, a passthrough can now be calculated. This is important because the Commission is required to evaluate the relationship of workshare discounts to the corresponding avoidable costs in its Annual Compliance Determination. By law, 39 U.S.C. 3622(e)(2), workshare discounts may not exceed avoidable cost except under specific

¹⁶ The methodologies used in the modified version of the Standard Mail mail processing avoided cost model provided in response to CHIR No.1 (ChIR1.Q3.xls) are correct, and should be used in all forthcoming periodic reports pursuant to 39 CFR 3050.10.

circumstances. Using the modified worksheets filed in response to CHIR No. 1, question 3, the unit mail processing cost for MAADC presort letters equals \$0.08374 and the cost for AADC presort letters equals \$0.07424. Assuming the delivery unit cost is the same, this results in a \$0.009 avoided cost differential between nonautomation machinable MAADC and AADC presort letters. This represents a passthrough of 169 percent for AADC. However, in its ACR, the Postal Service provides a calculation of the avoidable costs using Proposal Twelve and FY 2011 data.¹⁷ On this basis, the passthrough is 69.9 percent.

¹⁷ See Docket No. ACR2011, USPS-FY11-3, Excel file: FY11.3Alternate.Worksharing Discount Table Final.xls.

VI. PROPOSAL THIRTEEN: DEVELOPMENT OF A NEW MAIL PROCESSING COST MODEL FOR MEDIA MAIL/LIBRARY MAIL

A. Postal Service Proposal

The Postal Service proposes a new mail processing cost model for Media Mail/Library Mail that responds to the Commission's directive in Docket No. RM2011-5. With Order No. 724 in Docket No. RM2011-5, the Commission directed the Postal Service to revise its mail processing cost model to utilize the cost pool classification method established in Docket No. R2006-1 for First-Class letters. See Docket No. RM2011-5, Proposal Twelve.

Currently, the Media Mail/Library Mail cost pools are grouped into two categories: workshare proportional or workshare fixed. Under Proposal Thirteen, the cost pools are grouped into three categories: (1) parcel sorting cost pools are classified as workshare proportional; (2) forwarding/Accepting/Customer service cost pools are classified as workshare fixed; and (3) the remaining cost pools (mainly allied, support, and unexpected costs) are piggybacked (distributed) in the ratio of the proportional and fixed cost pools.

In addition, to ensure consistency with other parcel mail processing cost models, the proposed Media Mail/Library Mail mail processing cost model utilizes the same format and input data as the Standard Mail NFM/Parcels and Parcel Select/Parcel Return Service cost models.¹⁸

¹⁸ In Docket Nos. RM2010-12 (Proposal Seven) and RM2011-6 (Proposal Thirteen), the Commission approved the inputs and format for NFM/Parcels and Parcel Select/Parcel Return Service cost models, respectively. The new inputs were largely based on a 2009 Standard Mail parcel study. See Docket No. RM2010-12, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Three – Eight), September 8, 2010, at 2-3.

B. Participants Comments

Comments were filed by the Public Representative. No other parties submitted comments. The Public Representative recommends that the Commission approve the new Media Mail/Library Mail mail processing cost model because it will improve accuracy. PR Comments at 4, 6-8.

C. Commission Analysis

The Commission approves the new mail processing cost model for Media Mail/Library Mail. The proposed mail processing cost model will develop more accurate unit costs for Media Mail/Library Mail workshare categories because the inputs will be updated. Also, the proposal is responsive to the Commission's order in Docket No. RM2011-5 requesting the Postal Service to revise its cost pool allocation for Media Mail/Library Mail to be consistent with the method established in Docket No. R2006-1. In addition, the proposed cost model is consistent with models approved by the Commission for similar parcel products.

VII. PROPOSAL FOURTEEN: CHANGES IN SPECIAL SERVICES COST MODELS

A. Postal Service Proposal

Proposal Fourteen would update the “bottom-up” cost models for a number of Special Services by including the costs associated with window-related and mail processing activities. These cost models are needed to disaggregate costs for analysis, since the product volumes and costs are too small for the CRA model to accurately develop them. Response to PR Reply Comments at 3-5.

The Postal Service proposes to update cost models for the following: Caller Service; Certificate of Mailing; Correction of Mailing List; Periodical Application; P.O. Box Key and Lock; Restricted Delivery; Signature Confirmation; and Zip Coding of Mailing List.¹⁹ Petition at 19.

According to the Postal Service, the cost models are used to supplement the cost information provided in the Cost and Revenue Analysis (CRA) report. *Id.* See also Postal Service Reply Comments. The Postal Service explains that some costing elements that are commonly incorporated into the cost models were not available or were not used when the Special Service cost models were developed several decades ago. These costing elements include the Waiting Time Adjustment Factor, the Miscellaneous Factor for window-related activities, and the Miscellaneous Factor for mail processing-related activities. *Id.*

To be consistent with the current CRA methodology, the Postal Service proposes to update each cost model referenced above by including the appropriate Waiting Time Adjustment Factor and the Miscellaneous Factors. The Waiting Time Adjustment Factor reflects the time a postal clerk waits for a customer at the front of the line to walk to the counter. The Miscellaneous Factors allocate “clerks’ clocking-in and clocking-out

¹⁹ These cost models were presented in Docket No. ACR2010, December 29, 2010, Library Reference USPS-FY10-1, FY 2010 Public Cost and Revenue Analysis (PCRA) Report.

time, taking personal breaks, moving equipment and similar activities.” *Id.* The Postal Service maintains that by incorporating the adjustment factors into each cost model, the development of unit costs for Special Services will reflect current practices. *Id.*; see *also* Postal Service Reply Comments at 3-5.

B. Participant Comments

The Public Representative filed comments discussing the Postal Service updates to selected Special Services cost models. No other parties submitted comments. The Public Representative expressed concern that the cost models for the following Special Services may already include costs for the Waiting Time Adjustment Factor and the Miscellaneous Factors: (1) Caller Service; (2) Certificate of Mailing; (3) Signature Confirmation; (4) Periodicals Applications; (5) P.O. Box Key and Lock; and (6) Restricted Delivery. For example: the Public Representative suggests that costs for clocking in and out, personal breaks and moving equipment are already included in the Postal Service’s CRA cost segment 3.²⁰

In response to the Public Representative’s comments, the Postal Service asserts that the Waiting Time Adjustment Factor and the Miscellaneous Factors are not duplicated in each cost model. Postal Service Comments at 3-4.

The Postal Service states that the CRA cost models are “‘top-down,’ meaning that they take all Postal Service costs at the end of the year, including the attributable waiting time costs and miscellaneous costs associated with window service and mail processing and allocate them among postal products.” *Id.* The products that comprise “Other Ancillary Services” reported in the CRA are too small to be accurately captured in the Postal Service’s data systems. Therefore, the Postal Service reports them on an aggregated basis. *Id.*

²⁰ See Docket No. ACR2010, Library Reference USPS-FY10-32, CSO3.xls, worksheet 3.2.1 - Window Service volume variable costs.

In general, the Special Services cost studies are designed to develop unit costs for the services included in Other Ancillary Services. In developing unit costs, the Postal Service proposes to update each cost model to reflect the costs of window-related and mail processing activities.

C. Commission Analysis

The Commission accepts the Postal Service's methodology changes to each cost model. The Public Representative's concerns that the proposed update may double count some cost items is not warranted.

The costs reported in the CRA for Caller Service and Other Ancillary Services capture all the costs incurred by these services including waiting time, and related window service and mail processing activities. However, the Postal Service's data systems do not provide sufficient detail to accurately develop the attributable cost for each of the Special Services. To facilitate analysis of these services, the Postal Service estimates the attributable cost of each service using a cost model that builds up a CRA type cost. The current models do not include waiting time cost, window-related cost, or related mail processing cost. Without these costs, the models would not produce a cost comparable to the attributable costs reported for Caller Service and other ancillary services and would understate the costs caused by these services. Thus, the current models must be modified to include the costs of waiting time and related window service and mail processing activities.

VIII. PROPOSAL FIFTEEN: PROPOSED CHANGES IN COST MODELS RELATED TO RETURN RECEIPT SERVICE

A. Postal Service Proposal

Proposal Fifteen proposes to update the Return Receipt bottom-up cost models to reflect existing operations and incorporate other revisions. Petition at 21. The Postal Service explains that the original cost study and models for Return Receipt were developed in 1976 and updated in Docket Nos. MC96-3, R2000-1, and R2001-1. *Id.*

Return Receipt provides the sender proof that the mailpiece was delivered. Currently, there are four Return Receipt cost models: (1) the traditional Return Receipt (PS Form 3811- the “Green Card”); (2) electronic Return Receipt (eRR); (3) Return Receipt after Mailing; and (4) Return Receipt for Merchandise. Except for Return Receipt for Merchandise, Return Receipt is an Ancillary Special Service that can be purchased for Express Mail or in combination with another special service such as Certified Mail. *Id.* at 22. The proposed updates to each model are discussed below.

Since Return Receipt is generally purchased with Certified Mail, the Postal Service states that an appropriate way to measure the transaction time associated with a Return Receipt is to compare the transaction time difference for a Certified Mail purchase with and without a Return Receipt. *Id.* In this regard, the Postal Service visited 25 postal retail units in several states²¹ to measure window acceptance and delivery transaction times for Certified Mail with and without a Return Receipt. The Postal Service observed a total of 159 window transactions. Of those transactions, 118 window transactions included Certified Mail with Return Receipts, and 37 transactions

²¹ The states include California, Colorado, the District of Columbia, Florida, Illinois, Maryland, Nebraska, Pennsylvania, Texas and Virginia. *Id.*

included Certified Mail pieces without a Return Receipt.²² *Id.* at 26. After completing the study, the Postal Service calculated the window acceptance time for a Return Receipt to be 0.64 minute.²³ *Id.* at 22. In addition to the acceptance and delivery transaction times, the Postal Service observed that a clearing clerk (generally an accountable cage clerk) reviews the Green Card after it is brought back to the station by carriers and before it is mailed back to the customer. Using the updated information, the Postal Service revised the traditional Green Card cost model and each of the other three Return Receipt cost models. *Id.*

Electronic Return Receipt (eRR) provides proof of delivery via an e-mail with the delivery date, time, and a digital image of the signature from the mailpiece. No printed Return Receipt Green Card is sent to the customer. However, printing costs for the Green Card were inadvertently included in the existing cost model. The Postal Service proposes to remove such costs since the Green Card is not used in eRR. Also, the Postal Service proposes adding a Waiting Time Adjustment Factor and the Miscellaneous Factor (window overhead) to the window activity costs.

Return Receipt after Mailing provides the sender with a return receipt showing the date of delivery and the name of the person or organization that received the item, but not an actual signature. The Postal Service proposes adding to the cost model the Waiting Time Adjustment Factor and the Miscellaneous Factor (window overhead).

Return Receipt for Merchandise (PS Form 3804) provides the sender with a mailing receipt and a Green Card. After delivery, the Green Card is returned through the mail to the sender. When the model was initially developed, the costs included only one label – the mailing receipt. As a result, the Postal Service proposes to incorporate

²² The amount of transactions relied upon is relatively small compared to the total traditional Return Receipt transactions reported in the FY 2010 ACR. See Docket No. ACR2010, Library Reference USPS-FY10-4.

²³ “The average window acceptance transaction time for Certified Mail pieces is 1.92 minutes, and the average window acceptance transaction time for Certified Mail pieces with Return Receipt is 2.56 minutes.” The difference, 0.64 minute, or 38.4 seconds, is used to estimate the window acceptance transaction time for Return Receipts.

the material costs for a Green Card into the model. In addition, the Postal Service reviewed the time needed to collect a customer's signature and found that it was less than what was originally estimated. The Postal Service proposes to update the cost model to reflect the new information. The overall impact of the update is a net decrease in the unit cost for Return Receipt for Merchandise. *Id.* at 23.

B. Participant Comments

Comments were filed by the Public Representative. No other parties submitted comments. The Public Representative expresses two concerns with the Postal Service's proposal: (1) the possible duplication of the Waiting Time Adjustment Factor and the Miscellaneous Factors for Return Receipt; and (2) the revised window acceptance time for Return Receipt (38.4 seconds) appears to be problematic. The Public Representative compares the proposed window acceptance time (38.4 seconds) with the transaction time provided in Docket No. R2006-1 (8.2 seconds). See Docket No. R2006-1, Response of the United States Postal Service to Presiding Officer's Information Request No. 7, Questions 3-9, July 13, 2006, Avg_Product_Times.R06.POIR7_Q6c.xls.

In response to the Public Representative's comments, the Postal Service asserts that the Waiting Time Adjustment Factor and the Miscellaneous Factor are not duplicated in the four Return Receipt cost models.²⁴ As discussed in Proposal 14, the Postal Service states that the CRA cost models are "'top-down,' meaning that they take all Postal Service costs at the end of the year, including the attributable waiting time costs and miscellaneous costs associated with window service and allocate them among postal products." *Id.* The Return Receipt products are too small to be accurately represented individually. Therefore, the Postal Service reports them on an aggregated basis in the CRA. *Id.*

²⁴ Postal Service Reply Comments at 3-4. See also the discussion in Proposal 14 concerning the Public Representative's assertion that the Waiting Time Adjustment Factor and the Miscellaneous Factor appeared to be duplicated in the cost studies.

In developing unit costs for the Return Receipt products, the Postal Service proposes to update the cost models to reflect the data presented for the Waiting Time Adjustment Factor and the Miscellaneous Factor. Proposal 15 updates each Return Receipt cost model to incorporate costs that are currently reported in the CRA report, but were not identified in each cost model.

In response to the Public Representative's comments regarding transaction time, the Postal Service states that the 8.2 second transaction time for "Other Special Services" from the Docket No. R2006-1 window transaction study was never relied upon in the Return Receipt cost models. The existing time estimate used in the Return Receipt model is based on a study performed in 1976. Therefore, the Postal Service proposes to update the existing Return Receipt time estimate with a recent study time estimate of 0.64 minutes.

C. Commission Analysis

The Commission approves the updates to the Return Receipt cost models. The proposed changes reflect current postal operations which should be incorporated into the Postal Service's costing procedures.

A Commission review of the transaction time in R2006-1 indicates that the 8.2 seconds is not relevant to the Return Receipt cost models. The Postal Service's updated estimate of 0.64 minutes for window acceptance appears reasonable.

A Commission review of the individual Return Receipt cost models indicates that the Postal Service has not previously included costs for the Waiting Time Adjustment Factor or the Miscellaneous Factor (window overhead). The proposed updates do include costs for the Waiting Time Adjustment Factor and the Miscellaneous Factor (window overhead). Therefore, for the reasons discussed for Proposal Fourteen, the Commission agrees with the Postal Service that the instant proposal will not double-count these costs. However, the data collection supporting the return receipt transaction time estimate is not based on a scientific probability sample of facilities. Without a probability sample, statistical tests of significance cannot be used. Thus, one

cannot determine if the newly developed transaction time is significantly different from the previous figure.

The Postal Service may have been able to save money by piggybacking its return receipt data collection effort on existing surveys ongoing at selected facilities. It also may be that return receipt window transactions do not vary substantially across facilities, which means the Postal Service's judgment sample may be representative. However, without a probability sample, there are no assurances. Nevertheless, the Postal Service's new figure has the virtue of being current and the Commission finds it to be useful for the purpose at hand.

In the future, the Postal Service should strive to base estimates on probability samples when the budget permits and it should consider the efficacy of using judgment samples only when there are insufficient funds to support a proper sample. It should also be sure to recognize that a judgment sample may not be suitable for estimates that have substantial impacts.

It is ordered:

For purposes of periodic reporting to the Commission, the Commission accepts the changes in analytical principles proposed by the Postal Service in Proposals Nine through Fifteen in Docket No. RM2012-1 as set forth in the body of this Order.

By the Commission.

Ruth Ann Abrams
Acting Secretary